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Sri Lanka

Grain and Feed

Annual

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Report Highlights:
Sri Lanka's MY 2004/05 rice production is forecast at two million tons, assuming favorable weather conditions. MY 2003/04 production was revised downward to 1.8 million tons, due to dry weather conditions during the ongoing maha season. Wheat imports in CY 2004 are forecast at 950,000 metric tons, with no likely improvement in US market share.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

SECTION I - SITUATION & OUTLOOK

RICE

Production Situation and Outlook

Sri Lanka's MY 2004/05 rice production is forecast at two million tons (milled basis), assuming normal rains this summer and fall. The MY 2003/04 rice output is revised downward to 1.8 million tons, due largely to the drought during the ongoing *maha* season. The *yala* crop (harvested in the fall of 2003) is estimated at 800,000 tons, and the *maha* crop, currently being harvested, at 1 million tons.

Rice is the most important crop in Sri Lanka, occupying approximately 34 percent of the total cultivated area. The average annual sown area for rice is around 870,000 hectares, including both the *maha* and the *yala* seasons. Sri Lanka produces an average of 2.7 million tons of rough rice annually, which meets around 95 percent of the domestic requirement.

Domestic rice demand is projected to increase at 1.1 percent per year. Production would have to increase at 2.0 percent annually in order for the country to become self-sufficient in rice. Future production increases would have to come from better yields and higher cropping intensity, as the scope for area expansion is limited.

Consumption

Rice is a staple in the Sri Lankan diet. The annual per capita consumption averages around 100 kilograms, which is influenced by the relative price of rice vis-à-vis wheat. In recent years, there has been a shift from rice to flour based foods, mainly in urban areas, due to the ease of wheat-based food. This trend is likely to continue. Average retail rice prices in 2003 ranged from SL Rs. 26-28 (37 cents) per kilogram, compared with Rs. 29-33 (33 cents) per kilogram in 2002.

Trade

Rice imports in MY 2004/05 are forecast at around 60,000 tons, compared with 75,000 tons in MY 2003/04. The present tariff on rice is SL Rs. 9 per kilogram, an increase of Rs. 2 per kilogram over last year. If domestic rice prices continue to rise, the government might reduce the tariff to facilitate larger imports. On a calendar year basis, rice imports dipped sharply from 92,000 tons in 2002 to 33,000 tons in 2003, due to the bumper paddy harvest in MY 2002/03. Imports in CY 2004 are estimated at 70,000 tons.

Sri Lanka imports rice mostly from India and Pakistan. Other minor suppliers are China, the United Arab Emirates, Singapore, and Australia. In CY 2003, Sri Lanka did not import rice from the United States.

Marketing

Due to political considerations, successive governments have tried to support farm prices for paddy rice. This year, the Cabinet again has approved funds to purchase paddy rice from farmers at a farm gate support price of SL Rs. 15 per kilogram. The country's milling industry is dominated by 7 to 8 large mills, which have large storage facilities.

WHEAT

Production

There is no wheat cultivation in Sri Lanka. The country's entire wheat needs are met through imports.

Consumption

Sri Lankan consumers' preference, particularly in urban areas, has been shifting towards flour-based foods due to their cooking convenience. The availability of a wide range of ready-to-eat wheat-based food products has further supported wheat consumption. Annual per capita flour consumption averages around 50 kilograms, and has the potential to increase further if rice prices remain strong. Higher vegetable prices also tend to support increased wheat consumption.

All the flour in Sri Lanka is produced by Prima (Ceylon) Ltd, the country's sole flourmill. Small quantities of flour are imported by end-users, such as the biscuit manufacturers, if the locally produced flour does not meet their requirements. There has been some concern regarding the quality of the flour produced by Prima since its privatization in 2001, especially after it started importing low priced wheat from India and other non-traditional origins. After Prima's privatization, US wheat has been losing market share, as Prima now focuses more on pricing and profit margins rather than on quality. US wheat exports to Sri Lanka in CY 2003 were confined to just one shipment of 52,500 tons, due to its relatively high price. The current retail flour price is around SL Rs. 23 per kilogram. Flour distributed by Prima in CY 2003 totaled 644,846 tons, little changed from 639,159 in 2002.

The US, Australia, and Canada were the major suppliers of wheat to Sri Lanka before Prima's privatization. After the mill was sold to Prima in 2001, there has been a change in wheat procurement strategy with the focus more on price rather than on quality. Concerns about profit margins and the pressure from the government to maintain stable retail flour prices forced Prima to source cheaper wheat. Imports from countries like India, which were virtually non-existent before privatization, now dominate the market. Although the privatization agreement has a provision for holding adequate wheat stocks to meet contingencies, according to official sources, Prima does not stock more than 6,000 tons, compared to the buffer stock requirement of 25,000 tons prior to privatization. A second flourmill (a joint venture between a Sri Lankan Company and a UAE-based investor) in the vicinity of the Colombo Port is scheduled to be commissioned in 2005.

Trade and Competition

CY 2004 wheat imports are expected to be around 950,000 tons. Relatively high US wheat prices and the price-buying by Prima will continue to adversely affect US market share. Sri Lanka's CY 2003 wheat imports were 987,000 tons, with the US market share falling to 5 percent from 32 percent in 2002. All imports in CY 2003 were commercial, except for 15,000 tons of wheat received from the United States under the Section 416(B) program.

Following privatization, the Sri Lankan Government cut food subsidies. The marketing efficiency of the mill has improved and the distribution network has expanded. To regain lost share of the annual $160 million wheat market, the US industry should emphasize the reliability of supply and quality of US wheat, and how good quality through increased milling yields and better wheat-based products could result in higher profitability. The likelihood of a second flourmill provides another opportunity to position US wheat into the Sri Lankan market.

SECTION II - STATISTICAL TABLES

Table 1: Commodity, Rice, PSD Table

PSD Table							
Country:	Sri Lanka						
Commodity:	Rice, Milled						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2002		10/2003		10/2004	(MONTH/YEAR)
Area Harvested	806	806	810	810	0	810	(1000 Hectares)
Beginning Stocks	118	118	106	106	0	59	(1000 MT)
Milled Production	2,058	2,058	2,108	1,848	0	2,006	(1000 MT)
Rough Production	3,026	3,026	3,100	2,718	0	2,950	(1000 MT)
Milling Rate(.9999)	6,800	6,800	6,800	6,800	0	6,800	(1000 MT)
TOTAL Imports	80	80	25	75	0	60	(1000 MT)
Jan-Dec Imports	25	92	92	33	0	70	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	2,256	**2,256**	2,239	**2,029**	0	**2,125**	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Jan-Dec Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	2,150	2,150	2,180	1,970	0	2,060	(1000 MT)
Ending Stocks	106	106	59	59	0	65	(1000 MT)
TOTAL DISTRIBUTION	2,256	**2,256**	2,239	**2,029**	0	**2,125**	(1000 MT)

Table 2: Commodity, Wheat, PSD

PSD Table							
Country:	**Sri Lanka**						
Commodity:	**Wheat**						
		2002		**2003**		**2004**	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		**01/2002**		**01/2003**		**01/2004**	(MONTH/YEAR)
Area Harvested	0	0	0	0	0	0	(1000 Hectares)
Beginning Stocks	100	100	100	100	0	100	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
TOTAL Mkt. Yr. Imports	900	928	900	987	0	950	(1000 MT)
Jul-Jun Imports	995	928	900	987	0	950	(1000 MT)
Jul-Jun Import U.S.	171	171	0	50	0	150	(1000 MT)
TOTAL SUPPLY	1000	**1028**	1000	**1087**	0	**1050**	(1000 MT)
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0	(1000 MT)
Jul-Jun Exports	0	0	0	0	0	0	(1000 MT)
Feed Dom. Consumption	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	900	928	900	987	0	950	(1000 MT)
Ending Stocks	100	100	100	100	0	100	(1000 MT)
TOTAL DISTRIBUTION	1000	**1028**	1000	**1087**	0	**1050**	(1000 MT)

Table 3: Commodity, Rice, Import Trade Matrix

Import Trade Matrix			
Country:	**Sri Lanka**	Units:	Metric Ton
Commodity:	**Rice, Milled**		
Time period:	**Jan - Dec**		
Imports for	**2002**		**2003**
U.S.	2000	U.S.	0
Others		Others	
India	54433	India	13482
Pakistan	25358	Pakistan	12403
Australia	9792		
Total for Others	89583		25885
Others not listed	407		7824
Grand Total	91990		33709

Table 4: Commodity, Wheat Import Trade Matrix

Import Trade Matrix			
Country:	**Sri Lanka**	Units:	Metric Ton
Commodity:	**Wheat**		
Time period:	**Jan-Dec**		
Imports for	**2002**		**2003**
U.S.	300,000	U.S.	52,500
Others		Others	
India	209,000	India	413,650
Australia	275,875	France	332,273
		Canada	105,000
Total for Others	484,875		850,923
Others not listed	143,000		83,577
Grand Total	927,875		987,000

Table 5: Wheat Imports by Month, CY 2002 and CY 2003 by Country of Origin (metric tons)

	2002			2003		
	US	Non-US 1/	Total	US	Non-US 1/	Total
January	58,925	52,500	111,425	52,500	81,422	133,922
February	63,000	61,140	124,140	0	87,157	87,157
March	0	74,000	74,000	0	42,853	42,853
April	59,547	22,000	81,547	0	41,547	41,547
May	0	113,047	113,047	0	176,570	176,570
June	0	21,350	21,350	0	80,206	80,206
July	0	60,450	60,450	0	24,677	24,677
August	0	80,175	80,175	0	119,662	119,662
September	62,130	18,831	80,961	0	69,324	69,324
October	56,000	45,500	101,500	0	27,523	27,523
November	0	78,100	78,100	0	77,013	77,013
December	0	0	0	0	106,546	106,546
Total	299,602	627,093	926,695	52,500	934,500	987,000

1/ Non-US includes India, Australia, France, Canada, etc